

CITY OF GRINNELL, IOWA

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2012

CITY OF GRINNELL, IOWA
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CITY OF GRINNELL, IOWA
OFFICIALS
June 30, 2012

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------|-----------------------------|---------------------|
| Gordon Canfield | Mayor | January, 2014 |
| James White | Council Member | January, 2014 |
| Oliva Wright | Council Member | January, 2014 |
| Jo Wray | Council Member | January, 2016 |
| Rachel Bly | Council Member | January, 2014 |
| Sondra Burnell | Council Member | January, 2016 |
| Byron Hueftle-Worley | Council Member | January, 2016 |
| Russell Behrens | City Manager | Appointed |
| P. Kay Cmelik | City Clerk/Finance Director | Appointed |
| William Sueppel | City Attorney | Appointed |

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Grinnell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by officials, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2012 on our consideration of the City of Grinnell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Honorable Mayor and
Members of the City Council

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Grinnell's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions, which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the three years ended June 30, 2007 (none of which are presented herein), were audited by other auditors whose reports expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included on pages 1 and 23 through 29, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Grinnell's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 4e and 21 through 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Gwendolyn, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
December 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grinnell has prepared the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the Government-wide Financial Statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, solid waste, and storm sewer activities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These funds focus on how money flows into and out of the funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, solid waste funds and storm sewers. The water, sewer and solid waste funds are considered to be major enterprise funds of the city.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's balance for governmental activities increased approximately \$393,000 from a year ago. The analysis that follows focuses on the cash balances for governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|---------|
| | Year Ended June 30, | |
| | 2012 | 2011 |
| Receipts | | |
| Program Receipts | | |
| Charges for Service | \$776 | \$829 |
| Operating Grants | 1,083 | 1,104 |
| Capital Grants | 4,259 | 4,336 |
| General Receipts | | |
| TIF | 1,404 | 1,513 |
| Property Tax | 3,786 | 3,610 |
| Debt Proceeds | 2,765 | -- |
| Other General Receipts | 1,674 | 1,570 |
| Total Receipts | 15,747 | 12,962 |
| Disbursements | | |
| Public Safety | 1,984 | 1,908 |
| Public Works | 1,261 | 1,118 |
| Health and Social Services | 1 | 1 |
| Culture and Recreation | 1,055 | 1,125 |
| Community and Economic Development | 811 | 791 |
| General Government | 1,193 | 1,107 |
| Debt Service | 4,405 | 1,737 |
| Capital projects | 4,934 | 5,177 |
| Total Disbursements | 15,644 | 12,964 |
| Change in Cash Basis Net Assets Before Transfers | 103 | (2) |
| Transfers, net | 290 | 235 |
| Change in Cash Basis Net Assets | 393 | 233 |
| Cash Basis Net Assets Beginning of Year | 5,227 | 4,994 |
| Cash Basis Net Assets End of Year | \$5,620 | \$5,227 |

The City's total receipts for governmental activities increased 21.5% or approximately \$2,785,000. The total cost of all programs and services increased by approximately 20.7% or approximately \$2,680,000, due to an increase in debt service expenditures.

The cost of all governmental activities this year was approximately \$15,644,000 compared to approximately \$12,964,000 last year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|----------------|
| | Year Ended June 30, | |
| | 2012 | 2011 |
| Receipts | | |
| Program Receipts | | |
| Charges for Service | | |
| Water | \$1,019 | \$1,023 |
| Sewer | 1,463 | 1,380 |
| Solid waste | 1,081 | 1,072 |
| Storm sewer | 254 | 242 |
| | <u>3,817</u> | <u>3,717</u> |
| General Receipts | | |
| Other General Receipts | 104 | 100 |
| Total Receipts | <u>3,921</u> | <u>3,817</u> |
| Disbursements | | |
| Water | 1,115 | 1,179 |
| Sewer | 1,243 | 1,327 |
| Solid waste | 1,026 | 1,019 |
| Storm sewer | 115 | 177 |
| Total Disbursements | <u>3,499</u> | <u>3,702</u> |
| Change in Cash Basis Net Assets Before Transfers | 422 | 115 |
| Transfers, net | <u>(290)</u> | <u>(235)</u> |
| Change in Cash Basis Net Assets | 132 | (120) |
| Cash Basis Net Assets - Beginning of Year | <u>1,737</u> | <u>1,857</u> |
| Cash Basis Net Assets - End of Year | <u>1,869</u> | <u>\$1,737</u> |

Total business type activities receipts for the fiscal year were approximately \$3,921,000 compared to approximately \$3,817,000 last year. The cash balance increased by approximately 7.6% or \$132,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by approximately 3.8% to a total of approximately \$3,789,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of \$5,620,416, an increase of \$393,426 from last year's total of \$5,226,990. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$22,286 from the prior year to \$1,122,552.
- The Equipment Replacement Fund cash balance increased by \$104,189 to \$1,788,944.
- The Urban Renewal Tax Increment Fund cash balance decreased \$3,071 to \$139,740.
- The Debt Service Fund cash balance increased \$18,779 to \$128,718.
- The Capital Projects Fund cash balance increased by \$121,122 to \$658,576.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$28,599 to \$100,647.
- The Sewer Fund cash balance increased by \$105,104 to \$1,206,634.
- The Solid Waste cash balance decreased by \$35,089 to \$56,026.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, which increased budgeted disbursements by \$1,098,135. The budget increase was primarily for disbursements in the public works, community and economic development, general government, and business type activities functions.

The City's total receipts and disbursements were less than budgeted by \$2,333,314 and \$640,921, respectively. The City's disbursements were less than amounts budgeted for all of the functions, except for the debt service function. The expenditures for the debt service function exceeded the amount budgeted due to a debt service payment made as part of a refunding that had not been included in the budget.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$17,041,834 in bonds and other long-term debt, compared to \$18,552,878 last year as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|----------|----------|
| | June 30, | |
| | 2012 | 2011 |
| General Obligation Notes and Bonds | \$15,647 | \$16,663 |
| Revenue Notes | 1,395 | 1,890 |
| Total | \$17,042 | \$18,553 |

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa Limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$15,646,834 is below its constitutional debt limit by approximately \$8,586,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Grinnell elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities.

The Local Options Sales and Service Tax has allowed Grinnell to complete and pursue some large capital projects i.e. Drake Community Library Project, Public Safety Building Project and Grinnell Mutual Family Aquatic Center Project. These revenues allow us to abate the General Obligation Bonds Principal and Interest rather than raising the debt service levy. We will also see the Tax Increment Financing dollars being utilized to assist with the continuation of the Central Business District phases of development; TIF Rebate Agreements and future economic development projects.

The Sewer rates will likely see some increases over the next few years due to the required improvements to our wastewater treatment plant. The new Storm Water Utility will provide for future capital projects to daily operations which lessen the burden to the sanitary sewer fund as well as the general fund.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact P. Kay Cmelik, City Clerk, Grinnell, Iowa.

CITY OF GRINNELL, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2012

| | | <u>Program Receipts</u> | |
|---|----------------------|----------------------------|---|
| | <u>Disbursements</u> | <u>Charges for Service</u> | <u>Operating Grants, Contributions, and Restricted Interest</u> |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 1,983,835 | \$ 59,929 | \$ 75,302 |
| Public works | 1,260,714 | 77,890 | 914,107 |
| Health and social services | 898 | -- | -- |
| Culture and recreation | 1,054,957 | 437,932 | 51,777 |
| Community and economic development | 811,409 | 171,718 | 42,225 |
| General government | 1,192,906 | 28,808 | -- |
| Debt service | 4,405,315 | -- | -- |
| Capital projects | 4,934,388 | -- | -- |
| Total governmental activities | <u>15,644,422</u> | <u>776,277</u> | <u>1,083,411</u> |
| Business type activities: | | | |
| Water | 1,115,095 | 1,019,242 | -- |
| Sewer | 1,242,780 | 1,463,423 | -- |
| Solid waste | 1,025,935 | 1,081,329 | -- |
| Storm Sewer | 115,405 | 253,714 | -- |
| Total business type activities | <u>3,499,215</u> | <u>3,817,708</u> | <u>--</u> |
| Total | <u>\$ 19,143,637</u> | <u>\$ 4,593,985</u> | <u>\$ 1,083,411</u> |
| General Receipts and Transfers: | | | |
| Property tax levied for: | | | |
| General purposes | | | |
| Debt service | | | |
| Tax increment financing | | | |
| Hotel motel tax | | | |
| Local option sales tax | | | |
| Unrestricted interest on investments | | | |
| Debt proceeds | | | |
| Miscellaneous | | | |
| Transfers | | | |
| Total general receipts and transfers | | | |
| Change in cash basis net assets | | | |
| Cash basis net assets beginning of year | | | |
| Cash basis net assets end of year | | | |

(continued next page)

| Program Receipts Capital Grants, Contributions, and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|--|-----------------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total |
| \$ -- | \$ (1,848,604) | \$ -- | \$ (1,848,604) |
| -- | (268,717) | -- | (268,717) |
| -- | (898) | -- | (898) |
| -- | (565,248) | -- | (565,248) |
| -- | (597,466) | -- | (597,466) |
| -- | (1,164,098) | -- | (1,164,098) |
| -- | (4,405,315) | -- | (4,405,315) |
| <u>4,258,751</u> | <u>(675,637)</u> | <u>--</u> | <u>(675,637)</u> |
| <u>4,258,751</u> | <u>(9,525,983)</u> | <u>--</u> | <u>(9,525,983)</u> |
| -- | -- | (95,853) | (95,853) |
| -- | -- | 220,643 | 220,643 |
| -- | -- | 55,394 | 55,394 |
| <u>--</u> | <u>--</u> | <u>138,309</u> | <u>138,309</u> |
| <u>--</u> | <u>--</u> | <u>318,493</u> | <u>318,493</u> |
| <u>\$ 4,258,751</u> | <u>(9,525,983)</u> | <u>318,493</u> | <u>(9,207,490)</u> |
| | 3,117,981 | -- | 3,117,981 |
| | 667,888 | -- | 667,888 |
| | 1,403,920 | -- | 1,403,920 |
| | 281,069 | -- | 281,069 |
| | 1,065,382 | -- | 1,065,382 |
| | 47,901 | 19,676 | 67,577 |
| | 2,765,000 | -- | 2,765,000 |
| | 280,068 | 84,940 | 365,008 |
| | <u>290,200</u> | <u>(290,200)</u> | <u>--</u> |
| | <u>9,919,409</u> | <u>(185,584)</u> | <u>9,733,825</u> |
| | 393,426 | 132,909 | 526,335 |
| | <u>5,226,990</u> | <u>1,736,409</u> | <u>6,963,399</u> |
| | <u>\$ 5,620,416</u> | <u>\$ 1,869,318</u> | <u>\$ 7,489,734</u> |

CITY OF GRINNELL, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - Continued

As of and for the year ended June 30, 2012

| | | <u>Program Receipts</u> |
|-----------------------------|----------------------|---|
| | | Operating Grants, Contributions, and Restricted Interest |
| | <u>Disbursements</u> | <u>Charges for Service</u> |
| Cash Basis Net Assets | | |
| Restricted: | | |
| Nonexpendable: | | |
| Cemetery perpetual care | | |
| Expendable: | | |
| Debt service | | |
| Capital projects | | |
| Urban renewal purposes | | |
| Streets | | |
| Equipment | | |
| Other purposes | | |
| Unrestricted | | |
| Total cash basis net assets | | |

The accompanying notes are an integral part of these statements.

| Program Receipts Capital Grants, Contributions, and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|--|-----------------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total |
| | \$ 500,382 | \$ -- | \$ 500,382 |
| | 128,718 | 499,539 | 628,257 |
| | 658,576 | -- | 658,576 |
| | 139,740 | -- | 139,740 |
| | 500,384 | -- | 500,384 |
| | 1,788,944 | -- | 1,788,944 |
| | 781,120 | -- | 781,120 |
| | <u>1,122,552</u> | <u>1,369,779</u> | <u>2,492,331</u> |
| | <u>\$ 5,620,416</u> | <u>\$ 1,869,318</u> | <u>\$ 7,489,734</u> |

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2012

| | <u>General</u> | <u>Special Revenue Equipment Replacement</u> |
|---|---------------------|--|
| Receipts: | | |
| Property tax | \$ 2,170,478 | \$ -- |
| Tax increment financing | -- | -- |
| Other city tax | 38,647 | -- |
| Licenses and permits | 78,285 | -- |
| Use of money and property | 149,481 | 12,434 |
| Intergovernmental | 225,581 | -- |
| Charges for service | 478,716 | -- |
| Special assessments | 5,612 | -- |
| Miscellaneous | <u>252,108</u> | <u>845</u> |
| Total receipts | <u>3,398,908</u> | <u>13,279</u> |
| Disbursements: | | |
| Operating: | | |
| Public safety | 1,695,361 | -- |
| Public works | 184,958 | 345,690 |
| Health and social services | 898 | -- |
| Culture and recreation | 1,044,785 | -- |
| Community and economic development | 284,097 | -- |
| General government | 472,099 | -- |
| Debt service | -- | -- |
| Capital projects | <u>--</u> | <u>--</u> |
| Total disbursements | <u>3,682,198</u> | <u>345,690</u> |
| Excess (deficiency) of receipts over (under) disbursements | (283,290) | (332,411) |
| Other financing sources (uses): | | |
| Debt proceeds | -- | -- |
| Operating transfers in | 294,213 | 436,600 |
| Operating transfers out | (33,209) | -- |
| Total other financing sources (uses) | <u>261,004</u> | <u>436,600</u> |
| Net change in cash balances | (22,286) | 104,189 |
| Cash balances beginning of year | <u>1,144,838</u> | <u>1,684,755</u> |
| Cash balances end of year | <u>\$ 1,122,552</u> | <u>\$ 1,788,944</u> |

(continued next page)

| <u>Special Revenue</u> | | | | |
|--|-------------------------|-----------------------------|---------------------|---------------------|
| <u>Urban Renewal Tax Increment</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor</u> | <u>Total</u> |
| \$ -- | \$ 657,915 | \$ -- | \$ 892,912 | \$ 3,721,305 |
| 1,403,920 | -- | -- | -- | 1,403,920 |
| -- | 9,973 | -- | 1,362,395 | 1,411,015 |
| -- | -- | -- | -- | 78,285 |
| 1,727 | 2,706 | 1,865 | 4,563 | 172,776 |
| -- | -- | 1,984,836 | 874,637 | 3,085,054 |
| -- | -- | -- | -- | 478,716 |
| -- | -- | -- | -- | 5,612 |
| -- | -- | 2,322,853 | 50,159 | 2,625,965 |
| <u>1,405,647</u> | <u>670,594</u> | <u>4,309,554</u> | <u>3,184,666</u> | <u>12,982,648</u> |
| -- | -- | -- | 288,474 | 1,983,835 |
| -- | -- | -- | 730,066 | 1,260,714 |
| -- | -- | -- | -- | 898 |
| -- | -- | -- | 10,172 | 1,054,957 |
| 286,335 | -- | -- | 240,977 | 811,409 |
| -- | -- | -- | 720,807 | 1,192,906 |
| -- | 4,405,315 | -- | -- | 4,405,315 |
| -- | -- | 4,934,388 | -- | 4,934,388 |
| <u>286,335</u> | <u>4,405,315</u> | <u>4,934,388</u> | <u>1,990,496</u> | <u>15,644,422</u> |
| 1,119,312 | (3,734,721) | (624,834) | 1,194,170 | (2,661,774) |
| -- | -- | 2,765,000 | -- | 2,765,000 |
| -- | 4,415,435 | 1,060,630 | 330,791 | 6,537,669 |
| (1,122,383) | (661,935) | (3,079,674) | (1,350,268) | (6,247,469) |
| <u>(1,122,383)</u> | <u>3,753,500</u> | <u>745,956</u> | <u>(1,019,477)</u> | <u>3,055,200</u> |
| (3,071) | 18,779 | 121,122 | 174,693 | 393,426 |
| <u>142,811</u> | <u>109,939</u> | <u>537,454</u> | <u>1,607,193</u> | <u>5,226,990</u> |
| <u>\$ 139,740</u> | <u>\$ 128,718</u> | <u>\$ 658,576</u> | <u>\$ 1,781,886</u> | <u>\$ 5,620,416</u> |

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2012

| | <u>General</u> | <u>Special Revenue Equipment Replacement</u> |
|--|------------------------|--|
| Cash Basis Fund Balances | | |
| Nonspendable - Cemetery perpetual care | \$ -- | \$ -- |
| Restricted for: | | |
| Debt service | -- | -- |
| Capital projects | -- | -- |
| Urban renewal purpose | -- | -- |
| Streets | -- | -- |
| Equipment | -- | 1,788,944 |
| Other purposes | -- | -- |
| Unassigned | <u>1,122,552</u> | <u>--</u> |
| Total cash basis fund balances | <u>\$ 1,122,552</u> | <u>\$ 1,788,944</u> |

The accompanying notes are an integral part of these statements.

| <u>Special Revenue Urban Renewal Tax Increment</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|-------------------------|-----------------------------|---------------------|---------------------|
| \$ -- | \$ -- | \$ -- | \$ 500,382 | \$ 500,382 |
| -- | 128,718 | -- | -- | 128,718 |
| -- | -- | 658,576 | -- | 658,576 |
| 139,740 | -- | -- | -- | 139,740 |
| -- | -- | -- | 500,384 | 500,384 |
| -- | -- | -- | -- | 1,788,944 |
| -- | -- | -- | 781,120 | 781,120 |
| -- | -- | -- | -- | 1,122,552 |
| <u>\$ 139,740</u> | <u>\$ 128,718</u> | <u>\$ 658,576</u> | <u>\$ 1,781,886</u> | <u>\$ 5,620,416</u> |

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2012

| | <u>Enterprise</u> | |
|---|-------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> |
| Operating receipts: | | |
| Use of money and property | \$ -- | \$ 5,985 |
| Charges for service | <u>1,019,242</u> | <u>1,457,438</u> |
| Total operating receipts | 1,019,242 | 1,463,423 |
| Operating disbursements: | | |
| Business type activities | <u>1,007,795</u> | <u>801,530</u> |
| Total operating disbursements | <u>1,007,795</u> | <u>801,530</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 11,447 | 661,893 |
| Non-operating receipts (disbursements): | | |
| Interest on investments | 1,280 | 14,589 |
| Miscellaneous | 78,974 | 1,872 |
| Debt service | <u>(107,300)</u> | <u>(441,250)</u> |
| Total non-operating receipts (disbursements) | <u>(27,046)</u> | <u>(424,789)</u> |
| Excess (deficiency) of receipts over (under) disbursements | (15,599) | 237,104 |
| Operating transfers out | <u>(13,000)</u> | <u>(132,000)</u> |
| Total operating transfers in (out), net | <u>(13,000)</u> | <u>(132,000)</u> |
| Net change in cash balances | (28,599) | 105,104 |
| Cash balances beginning of year | <u>129,246</u> | <u>1,101,530</u> |
| Cash balances end of year | <u>\$ 100,647</u> | <u>\$ 1,206,634</u> |
| Cash Basis Fund Balances | | |
| Restricted for debt service | \$ 58,750 | \$ 440,789 |
| Unrestricted | <u>41,897</u> | <u>765,845</u> |
| Total cash basis fund balances | <u>\$ 100,647</u> | <u>\$ 1,206,634</u> |

The accompanying notes are an integral part of these statements.

| Solid Waste | Enterprise | |
|----------------------|--------------------|----------------------|
| | Storm Sewer | Total |
| \$ -- | \$ -- | \$ 5,985 |
| <u>1,081,329</u> | <u>253,714</u> | <u>3,811,723</u> |
| 1,081,329 | 253,714 | 3,817,708 |
| <u>1,025,935</u> | <u>115,405</u> | <u>2,950,665</u> |
| <u>1,025,935</u> | <u>115,405</u> | <u>2,950,665</u> |
| 55,394 | 138,309 | 867,043 |
| 723 | 3,084 | 19,676 |
| 3,994 | 100 | 84,940 |
| <u>--</u> | <u>--</u> | <u>(548,550)</u> |
| <u>4,717</u> | <u>3,184</u> | <u>(443,934)</u> |
| 60,111 | 141,493 | 423,109 |
| <u>(95,200)</u> | <u>(50,000)</u> | <u>(290,200)</u> |
| <u>(95,200)</u> | <u>(50,000)</u> | <u>(290,200)</u> |
| (35,089) | 91,493 | 132,909 |
| <u>91,115</u> | <u>414,518</u> | <u>1,736,409</u> |
| <u>\$ 56,026</u> | <u>\$ 506,011</u> | <u>\$ 1,869,318</u> |
| \$ -- | \$ -- | \$ 499,539 |
| <u>56,026</u> | <u>506,011</u> | <u>1,369,779</u> |
| <u>\$ 56,026</u> | <u>\$ 506,011</u> | <u>\$ 1,869,318</u> |

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Grinnell, Iowa is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, storm sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grinnell has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Grinnell has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board, Poweshiek County Emergency Management Commission, and the Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and remaining proprietary funds are aggregated and reported as nonmajor governmental funds or nonmajor proprietary funds, respectively.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Equipment Replacement Fund is used to account for purchase and rental of equipment.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the acquisition and construction of capital improvements.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation of the City's residential and commercial waste collection, composting and recycling.

The City also reports the following additional proprietary fund:

Enterprise:

The Storm Sewer Fund accounts for the operation of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

The City of Grinnell maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and bonds and revenue notes are as follows:

| Year Ending June 30, | General Obligation Notes & Bonds | | Revenue Notes | | Total | |
|-------------------------|-------------------------------------|--------------------|--------------------|------------------|----------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 1,281,761 | \$ 543,450 | \$ 525,000 | \$ 39,700 | \$ 1,806,761 | \$ 583,150 |
| 2014 | 1,357,526 | 441,608 | 540,000 | 25,012 | 1,897,526 | 466,620 |
| 2015 | 1,373,340 | 413,768 | 330,000 | 9,900 | 1,703,340 | 423,668 |
| 2016 | 1,449,207 | 382,086 | -- | -- | 1,449,207 | 382,086 |
| 2017 | 1,510,000 | 350,553 | -- | -- | 1,510,000 | 350,553 |
| 2018 - 2022 | 4,260,000 | 1,258,939 | -- | -- | 4,260,000 | 1,258,939 |
| 2023 - 2027 | 4,235,000 | 553,973 | -- | -- | 4,235,000 | 553,973 |
| 2028 - 2029 | 180,000 | 16,020 | -- | -- | 180,000 | 16,020 |
| | <u>\$ 15,646,834</u> | <u>\$3,960,397</u> | <u>\$1,395,000</u> | <u>\$ 74,612</u> | <u>\$ 17,041,834</u> | <u>\$4,035,009</u> |

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,210,000 in sewer revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for the refunding of the City's 2003 Sewer Refunding Capital Loan Notes and fund improvements. The notes are payable solely from sewer customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 67 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,135,412. For the current year, principal and interest paid and total customer net receipts were approximately \$441,000 and \$662,000, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for water improvements. The notes are payable solely from water customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require greater than 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$334,200. For the current year, principal and interest paid and total customer net receipts were approximately \$107,000 and \$11,000, respectively.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer and water revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Sufficient monthly transfers shall be made to sewer and water revenue note reserve accounts within the Enterprise Funds until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$2,000 to a sewer revenue note improvement account within the Enterprise Fund shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking and reserve accounts, and available for extraordinary expenses or repairs, capital improvements and extensions to the utility.

Defeasance of Debt

In December, 2011, the City issued \$2,765,000 of 2011 Series General Obligation Urban Renewal Refunding Bonds with an average interest rate of 0.98% to advance refund \$2,675,000 of Series 2007 Urban Renewal Bonds with varying interest rates ranging from 3.70% to 3.85%. The proceeds from the bonds were deposited with an escrow agent to provide for future debt service payments on the Series 2007 Urban Renewal Bonds due after June 1, 2013. As a result, the Series 2007 bonds due after June 1, 2013 are considered to be defeased. The City completed the advance refunding to reduce its total debt service payments over the next six years by approximately \$163,000 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$156,000.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 5.38% (5.78% effective July 1, 2012) of their annual covered salary and the City is required to contribute 8.07% (8.67% effective July 1, 2012) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$169,000, \$143,000, and \$137,600, respectively, equal to the required contribution for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17.0% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 were approximately \$253,800, \$189,200, and \$164,200, respectively, which met the required minimum contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time, and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-------------------|
| Vacation and Comp Time | \$ 78,000 |
| Sick Leave | <u>148,000</u> |
| Total | <u>\$ 226,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2012.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|------------------------|-----------------------------|---------------------|
| General | Special Revenue: | |
| | Hotel Motel Tax | \$ 37,500 |
| | Employee Benefits | 68,472 |
| | Local Option Sales Tax | 25,000 |
| | Insurance Deductible | 10,000 |
| | Urban Renewal Tax Increment | 50,000 |
| | Enterprise: | |
| | Water | 13,000 |
| | Sewer | 13,000 |
| | Storm Sewer | 50,000 |
| | Permanent: | |
| | Cemetery Perpetual Care | <u>27,241</u> |
| | | 294,213 |
| Special Revenue: | | |
| Employee Benefits | General Fund | 33,209 |
| Special Revenue: | Special Revenue: | |
| Hotel Motel Tax | Urban Renewal Tax Increment | 10,000 |
| Special Revenue: | | |
| Local Option Sales Tax | Capital Projects | 287,582 |
| Special Revenue: | | |
| Equipment Replacement | Special Revenue: | |
| | Urban Renewal Tax Increment | 100,000 |
| | Road Use | 60,000 |
| | Capital Projects | 62,400 |
| | Enterprise: | |
| | Sewer | 119,000 |
| | Solid Waste | <u>95,200</u> |
| | | 436,600 |
| Debt Service | Special Revenue: | |
| | Local Option Sales Tax | 997,055 |
| | Urban Renewal Tax Increment | 688,688 |
| | Capital Projects | <u>2,729,692</u> |
| | | 4,415,435 |
| Capital Projects | Special Revenue: | |
| | Hotel Motel Tax | 125,000 |
| | Urban Renewal Tax Increment | 273,695 |
| | Debt Service | <u>661,935</u> |
| | | <u>1,060,630</u> |
| | | <u>\$ 6,537,669</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$10.8 million of Industrial Development Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$6.65 million is outstanding at June 30, 2012. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 8 - RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There has been no reduction in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were approximately \$169,000.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 - RISK MANAGEMENT - Continued

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each accident, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012 settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from the other insurers for the coverage associated with airport liability, construction risk, volunteer coverage, workers' compensation, and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the City offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all City employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 65 active employees and one retiree currently covered by the Plan.

Potential for Liability: The City currently finances a retiree benefit plan on a pay-as-you-go basis. A review of the City's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

NOTE 10 - SUBSEQUENT EVENT

The City has evaluated all subsequent events through December 27, 2012, the date the financial statements were available to be issued.

NOTE 11 - CONSTRUCTION CONTRACTS

The City has entered into several construction contracts that are still in process as of June 30, 2012. The net remaining amount committed to these contracts is approximately \$613,000, which will be paid with existing capital project funds, local option sales tax revenue, tax increment financing revenues, grant proceeds, and donations.

* * *

OTHER INFORMATION

CITY OF GRINNELL, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETRY FUNDS
OTHER INFORMATION

Year ended June 30, 2012

| | <u>Governmental Funds Actual</u> | <u>Proprietary Funds Actual</u> | <u>Total</u> |
|---|--------------------------------------|-------------------------------------|---------------------|
| Receipts: | | | |
| Property tax | \$ 3,721,305 | \$ -- | \$ 3,721,305 |
| Tax increment financing | 1,403,920 | -- | 1,403,920 |
| Other city tax | 1,411,015 | -- | 1,411,015 |
| Licenses and permits | 78,285 | -- | 78,285 |
| Use of money and property | 172,776 | 25,661 | 198,437 |
| Intergovernmental | 3,085,054 | -- | 3,085,054 |
| Charges for service | 478,716 | 3,811,723 | 4,290,439 |
| Special assessments | 5,612 | -- | 5,612 |
| Miscellaneous | <u>2,625,965</u> | <u>84,940</u> | <u>2,710,905</u> |
| Total receipts | <u>12,982,648</u> | <u>3,922,324</u> | <u>16,904,972</u> |
| Disbursements: | | | |
| Public safety | 1,983,835 | -- | 1,983,835 |
| Public works | 1,260,714 | -- | 1,260,714 |
| Health and social services | 898 | -- | 898 |
| Culture and recreation | 1,054,957 | -- | 1,054,957 |
| Community and economic development | 811,409 | -- | 811,409 |
| General government | 1,192,906 | -- | 1,192,906 |
| Debt service | 4,405,315 | 548,550 | 4,953,865 |
| Capital projects | 4,934,388 | -- | 4,934,388 |
| Business type activities | <u>--</u> | <u>2,950,665</u> | <u>2,950,665</u> |
| Total disbursements | <u>15,644,422</u> | <u>3,499,215</u> | <u>19,143,637</u> |
| Excess (deficiency) of receipts over (under) disbursements | (2,661,774) | 423,109 | (2,238,665) |
| Other financing sources (uses), net | <u>3,055,200</u> | <u>(290,200)</u> | <u>2,765,000</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 393,426 | 132,909 | 526,335 |
| Balances beginning of year | <u>5,226,990</u> | <u>1,736,409</u> | <u>6,963,399</u> |
| Balances end of year | <u>\$ 5,620,416</u> | <u>\$ 1,869,318</u> | <u>\$ 7,489,734</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to Total |
|---------------------|---------------------|---------------------|
| Original | Final | Variance |
| \$ 3,694,207 | \$ 3,694,268 | \$ 27,037 |
| 1,353,493 | 1,393,600 | 10,320 |
| 1,244,123 | 1,325,873 | 85,142 |
| 68,350 | 75,026 | 3,259 |
| 215,233 | 206,265 | (7,828) |
| 3,783,404 | 3,496,657 | (411,603) |
| 4,576,769 | 4,744,951 | (454,512) |
| -- | -- | 5,612 |
| <u>3,286,421</u> | <u>4,301,646</u> | <u>(1,590,741)</u> |
| <u>18,222,000</u> | <u>19,238,286</u> | <u>(2,333,314)</u> |
| 2,014,082 | 2,055,958 | 72,123 |
| 1,607,800 | 1,820,832 | 560,118 |
| 2,000 | 2,000 | 1,102 |
| 1,512,894 | 1,535,927 | 480,970 |
| 746,264 | 961,748 | 150,339 |
| 1,045,429 | 1,298,820 | 105,914 |
| 1,675,374 | 1,675,624 | (3,278,241) |
| 5,532,531 | 5,652,593 | 718,205 |
| <u>4,550,049</u> | <u>4,781,056</u> | <u>1,830,391</u> |
| <u>18,686,423</u> | <u>19,784,558</u> | <u>640,921</u> |
| (464,423) | (546,272) | (1,692,393) |
| <u>--</u> | <u>130,256</u> | <u>2,634,744</u> |
| (464,423) | (416,016) | 942,351 |
| <u>6,697,068</u> | <u>6,697,068</u> | <u>266,331</u> |
| <u>\$ 6,232,645</u> | <u>\$ 6,281,052</u> | <u>\$ 1,208,682</u> |

CITY OF GRINNELL, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,098,135. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

SUPPLEMENTARY INFORMATION

CITY OF GRINNELL, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2012

| | | Special Revenue | |
|--|-------------------|-------------------|------------------------|
| | Road Use | Employee Benefits | Local Option Sales Tax |
| Receipts: | | | |
| Property tax | \$ -- | \$ 892,912 | \$ -- |
| Other City tax | -- | 15,944 | 1,065,382 |
| Use of money and property | -- | 543 | 2,554 |
| Intergovernmental | 874,337 | -- | -- |
| Miscellaneous | -- | 77 | -- |
| Total receipts | <u>874,337</u> | <u>909,476</u> | <u>1,067,936</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | -- | 261,874 | -- |
| Public works | 730,066 | -- | -- |
| Culture and recreation | -- | -- | -- |
| Community and economic development | -- | -- | 96,079 |
| General government | -- | 706,529 | -- |
| Total disbursements | <u>730,066</u> | <u>968,403</u> | <u>96,079</u> |
| Excess (deficiency) of receipts over (under) disbursements | 144,271 | (58,927) | 971,857 |
| Other financing sources (uses): | | | |
| Operating transfers in | -- | 33,209 | 287,582 |
| Operating transfers out | (60,000) | (68,472) | (1,022,055) |
| Total other financing sources (uses) | <u>(60,000)</u> | <u>(35,263)</u> | <u>(734,473)</u> |
| Net change in cash balances | 84,271 | (94,190) | 237,384 |
| Cash balances beginning of year | <u>416,113</u> | <u>115,015</u> | <u>176,102</u> |
| Cash balances end of year | <u>\$ 500,384</u> | <u>\$ 20,825</u> | <u>\$ 413,486</u> |
| Cash Basis Fund Balances | | | |
| Nonspendable - Cemetery perpetual care | \$ -- | \$ -- | \$ -- |
| Restricted for: | | | |
| Streets | 500,384 | -- | -- |
| Other purposes | <u>--</u> | <u>20,825</u> | <u>413,486</u> |
| Total cash basis fund balances | <u>\$ 500,384</u> | <u>\$ 20,825</u> | <u>\$ 413,486</u> |

(continued next page)

| Special Revenue | | | |
|-------------------------|-------------------------|----------------------|---------------------|
| Unemployment Reserve | Insurance Deductible | Insurance Reserve | Insurance Escrow |
| \$ -- | \$ -- | \$ -- | \$ -- |
| -- | -- | -- | -- |
| 200 | 162 | 117 | -- |
| -- | -- | -- | -- |
| -- | -- | 6,411 | -- |
| <u>200</u> | <u>162</u> | <u>6,528</u> | <u>--</u> |
| -- | -- | -- | -- |
| -- | -- | -- | -- |
| -- | -- | -- | -- |
| -- | -- | -- | -- |
| <u>6,312</u> | <u>--</u> | <u>7,966</u> | <u>--</u> |
| <u>6,312</u> | <u>--</u> | <u>7,966</u> | <u>--</u> |
| (6,112) | 162 | (1,438) | -- |
| -- | -- | -- | -- |
| <u>--</u> | <u>(10,000)</u> | <u>--</u> | <u>--</u> |
| <u>--</u> | <u>(10,000)</u> | <u>--</u> | <u>--</u> |
| (6,112) | (9,838) | (1,438) | -- |
| <u>33,791</u> | <u>78,162</u> | <u>56,573</u> | <u>9,790</u> |
| <u>\$ 27,679</u> | <u>\$ 68,324</u> | <u>\$ 55,135</u> | <u>\$ 9,790</u> |
| \$ -- | \$ -- | \$ -- | \$ -- |
| -- | -- | -- | -- |
| <u>27,679</u> | <u>68,324</u> | <u>55,135</u> | <u>9,790</u> |
| <u>\$ 27,679</u> | <u>\$ 68,324</u> | <u>\$ 55,135</u> | <u>\$ 9,790</u> |

CITY OF GRINNELL, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2012

| | Special Revenue | | |
|---|--------------------|------------------|----------------------|
| | Hotel Motel Tax | Library Gifts | Police Forfeiture |
| Receipts: | | | |
| Property tax | \$ -- | \$ -- | \$ -- |
| Other City tax | 281,069 | -- | -- |
| Use of money and property | 713 | 92 | 182 |
| Intergovernmental | -- | 300 | -- |
| Miscellaneous | <u>576</u> | <u>28,663</u> | <u>10,000</u> |
| Total receipts | 282,358 | 29,055 | 10,182 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | -- | -- | 26,600 |
| Public works | -- | -- | -- |
| Culture and recreation | -- | 10,172 | -- |
| Community and economic development | 144,898 | -- | -- |
| General government | <u>--</u> | <u>--</u> | <u>--</u> |
| Total disbursements | 144,898 | 10,172 | 26,600 |
| Excess (deficiency) of receipts over (under) disbursements | 137,460 | 18,883 | (16,418) |
| Other financing sources (uses): | | | |
| Operating transfers in | 10,000 | -- | -- |
| Operating transfers out | <u>(162,500)</u> | <u>--</u> | <u>--</u> |
| Total other financing sources (uses) | <u>(152,500)</u> | <u>--</u> | <u>--</u> |
| Net change in cash balances | (15,040) | 18,883 | (16,418) |
| Cash balances beginning of year | <u>158,206</u> | <u>17,445</u> | <u>22,805</u> |
| Cash balances end of year | <u>\$ 143,166</u> | <u>\$ 36,328</u> | <u>\$ 6,387</u> |
| Cash Basis Fund Balances | | | |
| Nonspendable - Cemetery perpetual care | \$ -- | \$ -- | \$ -- |
| Restricted for: | | | |
| Streets | -- | -- | -- |
| Other purposes | <u>143,166</u> | <u>36,328</u> | <u>6,387</u> |
| Total cash basis fund balances | <u>\$ 143,166</u> | <u>\$ 36,328</u> | <u>\$ 6,387</u> |

See accompanying independent auditor's report.

| <u>Permanent</u> | | |
|-----------------------|-----------------|---------------------|
| <u>Cemetery</u> | <u>Cemetery</u> | |
| <u>Perpetual Care</u> | <u>Trees</u> | <u>Total</u> |
| \$ -- | \$ -- | \$ 892,912 |
| -- | -- | 1,362,395 |
| -- | -- | 4,563 |
| -- | -- | 874,637 |
| <u>4,252</u> | <u>180</u> | <u>50,159</u> |
| 4,252 | 180 | 3,184,666 |
| | | |
| -- | -- | 288,474 |
| -- | -- | 730,066 |
| -- | -- | 10,172 |
| -- | -- | 240,977 |
| <u>--</u> | <u>--</u> | <u>720,807</u> |
| <u>--</u> | <u>--</u> | <u>1,990,496</u> |
| | | |
| 4,252 | 180 | 1,194,170 |
| | | |
| -- | -- | 330,791 |
| <u>(27,241)</u> | <u>--</u> | <u>(1,350,268)</u> |
| | | |
| <u>(27,241)</u> | <u>--</u> | <u>(1,019,477)</u> |
| | | |
| <u>(22,989)</u> | <u>180</u> | <u>174,693</u> |
| <u>520,981</u> | <u>2,210</u> | <u>1,607,193</u> |
| <u>\$ 497,992</u> | <u>\$ 2,390</u> | <u>\$ 1,781,886</u> |
| | | |
| \$ 497,992 | \$ 2,390 | \$ 500,382 |
| -- | -- | 500,384 |
| <u>--</u> | <u>--</u> | <u>781,120</u> |
| <u>\$ 497,992</u> | <u>\$ 2,390</u> | <u>\$ 1,781,886</u> |

CITY OF GRINNELL, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2012

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|--|--------------------------|---------------------------|---|
| General Obligation Notes and Bonds: | | | |
| 2006 B Capital Loan Note | May 15, 2006 | 6.50% | \$ 108,755 |
| 2007 Urban Renewal Bonds | June 1, 2007 | 3.70-3.85% | 3,500,000 |
| 2008 Refunding Capital Loan Notes | April 1, 2008 | 4.40% | 200,000 |
| 2008 Local Option Sales Tax Bonds | May 1, 2008 | 3.75 - 4.00% | 6,500,000 |
| 2009 Local Option Sales Tax Bonds | February 1, 2009 | 2.40 - 3.80% | 3,700,000 |
| 2009 Urban Renewal Refunding Bonds | October 1, 2009 | 2.25 - 4.45% | 1,900,000 |
| 2010 Urban Renewal Refunding Bonds | April 1, 2010 | 1.00 - 1.80% | 2,315,000 |
| 2011 Urban Renewal Refunding Bonds | December 1, 2011 | .5 - 1.45% | 2,765,000 |
| Total General Obligation Notes and Bonds | | | |
| Revenue Notes: | | | |
| 2009 Water Revenue Capital Loan Note Series A | July 1, 2009 | 3.00% | 500,000 |
| 2009 Sewer Revenue Capital Loan Note Series B | July 1, 2009 | 2.75 - 3.00% | 2,210,000 |
| Total Revenue Notes | | | |

See accompanying independent auditor's report.

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 62,878 | \$ -- | \$ 11,044 | \$ 51,834 | \$ 4,087 | \$ 277 |
| 2,975,000 | -- | 2,775,000 | 200,000 | 112,400 | 9,058 |
| 200,000 | -- | -- | 200,000 | 8,800 | 723 |
| 6,500,000 | -- | -- | 6,500,000 | 252,125 | 21,010 |
| 3,265,000 | -- | 450,000 | 2,815,000 | 103,580 | 7,657 |
| 1,805,000 | -- | 105,000 | 1,700,000 | 59,850 | 4,791 |
| 1,855,000 | -- | 440,000 | 1,415,000 | 25,488 | 1,757 |
| <u>--</u> | <u>2,765,000</u> | <u>--</u> | <u>2,765,000</u> | <u>39,618</u> | <u>--</u> |
| <u>\$16,662,878</u> | <u>\$2,765,000</u> | <u>\$3,781,044</u> | <u>\$ 15,646,834</u> | <u>\$ 605,948</u> | <u>\$ 45,273</u> |
| | | | | | |
| \$ 410,000 | \$ -- | \$ 95,000 | \$ 315,000 | \$ 12,300 | \$ 788 |
| <u>1,480,000</u> | <u>--</u> | <u>400,000</u> | <u>1,080,000</u> | <u>41,250</u> | <u>2,521</u> |
| <u>\$ 1,890,000</u> | <u>\$ --</u> | <u>\$ 495,000</u> | <u>\$ 1,395,000</u> | <u>\$ 53,550</u> | <u>\$ 3,309</u> |

CITY OF GRINNELL, IOWA
BOND AND NOTE MATURITIES
June 30, 2012

| Year ending June 30, | General Obligation Bonds and Notes | | | | | | | |
|-------------------------|------------------------------------|------------------|-----------------------------|-------------------|--------------------------------------|---------------------|--------------------------------------|-------------------|
| | 2006 B Capital Loan Note | | 2007 Urban Renewal Bonds | | 2008 Local Option Sales Tax Bonds | | 2008 Refunding Capital Loan Notes | |
| | Issued May 15, 2006 | | Issued June 1, 2007 | | Issued May 1, 2008 | | Issued April 1, 2008 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2013 | 6.50% | \$ 11,761 | 3.70% | \$ 200,000 | -- % | \$ -- | 4.40% | \$ 35,000 |
| 2014 | 6.50 | 12,526 | | | -- | -- | 4.40 | 25,000 |
| 2015 | 6.50 | 13,340 | | | -- | -- | 4.40 | 25,000 |
| 2016 | 6.50 | 14,207 | | | -- | -- | 4.40 | 65,000 |
| 2017 | | | | | -- | -- | 4.40 | 25,000 |
| 2018 | | | | | 3.75 | 340,000 | 4.40 | 25,000 |
| 2019 | | | | | 3.75 | 570,000 | | |
| 2020 | | | | | 3.75 | 595,000 | | |
| 2021 | | | | | 3.75 | 625,000 | | |
| 2022 | | | | | 3.88 | 650,000 | | |
| 2023 | | | | | 3.88 | 680,000 | | |
| 2024 | | | | | 3.88 | 710,000 | | |
| 2025 | | | | | 4.00 | 745,000 | | |
| 2026 | | | | | 4.00 | 775,000 | | |
| 2027 | | | | | 4.00 | 810,000 | | |
| 2028 | | | | | | | | |
| 2029 | | | | | | | | |
| | | <u>\$ 51,834</u> | | <u>\$ 200,000</u> | | <u>\$ 6,500,000</u> | | <u>\$ 200,000</u> |

| Year ending June 30, | Revenue Notes | | | | |
|-------------------------|---------------------|---------------------|---------------------|-------------------|---------------------|
| | 2009 Sewer Revenue | | 2009 Water Revenue | | Total |
| | Capital Loan Note | | Capital Loan Note | | |
| | Issued July 1, 2009 | | Issued July 1, 2009 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2013 | 2.75% | \$ 425,000 | 3.00% | \$ 100,000 | \$ 525,000 |
| 2014 | 2.75 | 435,000 | 3.00 | 105,000 | 540,000 |
| 2015 | 3.00 | 220,000 | 3.00 | 110,000 | 330,000 |
| | | <u>\$ 1,080,000</u> | | <u>\$ 315,000</u> | <u>\$ 1,395,000</u> |

See accompanying independent auditor's report.

| General Obligation Bonds and Notes | | | | | | | | |
|--------------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|---------------------|
| 2009 Local Option Sales Tax Bonds | | 2009 Urban Renewal Bonds | | 2010 Urban Renewal Bonds | | 2011 Urban Renewal Bonds | | |
| Issued February 1, 2009 | | Issued October 1, 2009 | | Issued April 1, 2010 | | Issued December 1, 2011 | | |
| Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Total |
| 2.80% | \$ 475,000 | 2.50% | \$ 105,000 | 1.15% | \$ 455,000 | -- % | \$ -- | \$ 1,281,761 |
| 3.00 | 495,000 | 2.50 | 110,000 | 1.50 | 475,000 | 0.50 | 240,000 | 1,357,526 |
| 3.20 | 515,000 | 2.50 | 120,000 | 1.80 | 485,000 | 0.70 | 215,000 | 1,373,340 |
| 3.40 | 540,000 | 2.50 | 120,000 | | | 0.90 | 710,000 | 1,449,207 |
| 3.60 | 565,000 | 3.00 | 130,000 | | | 1.20 | 790,000 | 1,510,000 |
| 3.80 | 225,000 | 3.00 | 135,000 | | | 1.45 | 810,000 | 1,535,000 |
| | | 3.00 | 140,000 | | | | | 710,000 |
| | | 3.20 | 145,000 | | | | | 740,000 |
| | | -- | -- | | | | | 625,000 |
| | | -- | -- | | | | | 650,000 |
| | | 4.00 | 200,000 | | | | | 880,000 |
| | | -- | -- | | | | | 710,000 |
| | | 4.20 | 150,000 | | | | | 895,000 |
| | | -- | -- | | | | | 775,000 |
| | | 4.25 | 165,000 | | | | | 975,000 |
| | | -- | -- | | | | | -- |
| | | 4.45 | 180,000 | | | | | 180,000 |
| | | | | | | | | |
| | <u>\$ 2,815,000</u> | | <u>\$ 1,700,000</u> | | <u>\$ 1,415,000</u> | | <u>\$ 2,765,000</u> | <u>\$15,646,834</u> |

CITY OF GRINNELL, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Last Eight Years

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------------|----------------------|----------------------|----------------------|
| Receipts: | | | |
| Property tax | \$ 3,721,305 | \$ 3,603,350 | \$ 3,452,308 |
| Tax increment financing | 1,403,920 | 1,512,596 | 1,376,451 |
| Other city tax | 1,411,015 | 1,154,105 | 1,128,032 |
| Licenses and permits | 78,285 | 70,828 | 73,202 |
| Use of money and property | 172,776 | 202,269 | 293,896 |
| Intergovernmental | 3,085,054 | 2,868,686 | 2,447,855 |
| Charges for service | 478,716 | 525,196 | 307,633 |
| Special assessments | 5,612 | -- | -- |
| Miscellaneous | <u>2,625,965</u> | <u>3,025,026</u> | <u>1,682,009</u> |
| Total | <u>\$ 12,982,648</u> | <u>\$ 12,962,056</u> | <u>\$ 10,761,386</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | \$ 1,983,835 | \$ 1,907,607 | \$ 1,716,902 |
| Public works | 1,260,714 | 1,117,766 | 1,187,834 |
| Health and social services | 898 | 972 | 11,285 |
| Culture and recreation | 1,054,957 | 1,124,820 | 1,042,095 |
| Community and economic development | 811,409 | 791,112 | 884,813 |
| General government | 1,192,906 | 1,107,407 | 1,044,360 |
| Debt service | 4,405,315 | 1,737,290 | 3,417,738 |
| Capital projects | <u>4,934,388</u> | <u>5,177,493</u> | <u>11,310,062</u> |
| Total | <u>\$ 15,644,422</u> | <u>\$ 12,964,467</u> | <u>\$ 20,615,089</u> |

See accompanying independent auditor's report.

| <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|----------------------|----------------------|----------------------|----------------------|---------------------|
| \$ 3,366,606 | \$ 3,087,015 | \$ 2,999,391 | \$ 3,056,035 | \$ 3,070,756 |
| 1,126,535 | 922,033 | 868,911 | 503,377 | 495,897 |
| 1,131,921 | 1,386,718 | 8,125 | 70,911 | 61,123 |
| 70,469 | 60,571 | 3,619 | 14,309 | 19,090 |
| 326,197 | 249,572 | 207,611 | 123,410 | 110,910 |
| 2,249,586 | 2,167,720 | 1,764,014 | 2,864,425 | 1,053,762 |
| 196,393 | 468,998 | 189,815 | 221,497 | 258,076 |
| -- | 848 | 6,629 | 15,039 | 2,133 |
| <u>3,568,962</u> | <u>629,659</u> | <u>2,603,867</u> | <u>1,290,592</u> | <u>1,417,407</u> |
| <u>\$ 12,036,669</u> | <u>\$ 8,973,134</u> | <u>\$ 8,651,982</u> | <u>\$ 8,159,595</u> | <u>\$ 6,489,154</u> |
| | | | | |
| \$ 1,597,813 | \$ 1,595,471 | \$ 1,813,974 | \$ 1,768,132 | \$ 1,632,680 |
| 1,009,404 | 1,625,587 | 1,722,727 | 778,029 | 676,135 |
| -- | -- | -- | -- | -- |
| 946,258 | 826,726 | 1,084,280 | 876,011 | 767,961 |
| 924,032 | 1,064,758 | 1,874,595 | 974,415 | 667,509 |
| 1,029,102 | 1,004,039 | 962,178 | 1,037,363 | 904,880 |
| 940,726 | 509,432 | 356,601 | 696,402 | 949,402 |
| <u>11,624,953</u> | <u>5,434,166</u> | <u>2,302,993</u> | <u>6,303,046</u> | <u>2,065,574</u> |
| <u>\$ 18,072,288</u> | <u>\$ 12,060,179</u> | <u>\$ 10,117,348</u> | <u>\$ 12,433,398</u> | <u>\$ 7,664,141</u> |

CITY OF GRINNELL, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

| <u>Grantor/Program</u> | <u>CFDA Number</u> | <u>Agency or Pass-through Number</u> | <u>Program Expenditures</u> |
|---|------------------------|--|---------------------------------|
| Direct: | | | |
| U.S. Department of Transportation: | | | |
| Federal Aviation Administration: | | | |
| Airport Improvement Program | 20.106 | 3-19-0039-08 | \$ 14,290 |
| Airport Improvement Program | 20.106 | 3-19-0039-09 | 45,599 |
| Airport Improvement Program | 20.106 | 3-19-0039-10 | 172,208 |
| | | | <u>232,097</u> |
| Total direct | | | 232,097 |
| Indirect: | | | |
| U.S. Department of Justice: | | | |
| Iowa Department of Justice: | | | |
| Polk County Sheriff's Office: | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.803 | N/A | 57,881 |
| U.S. Department of Transportation: | | | |
| Iowa Department of Public Safety: | | | |
| State and Community Highway Safety | 20.600 | 11-03, Task 476 | 2,488 |
| Iowa Department of Transportation: | | | |
| ARRA - Highway Planning and Construction | 20.205 | STP-U-3127(619)-70-79 | 28,000 |
| Highway Planning and Construction | 20.205 | ESL-3127(622)-7S-79 | 9,820 |
| Highway Planning and Construction | 20.205 | EDP-3127(616)-7Y-79 | 1,699,892 |
| Highway Planning and Construction | 20.205 | STP-E-3127(620)-8V-79 | 17,264 |
| | | | <u>1,754,976</u> |

(continued next page)

CITY OF GRINNELL, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year ended June 30, 2012

| <u>Grantor/Program</u> | <u>CFDA Number</u> | <u>Agency or Pass-through Number</u> | <u>Program Expenditures</u> |
|--|------------------------|--|---------------------------------|
| Indirect (continued): | | | |
| Environmental Protection Agency - Office of Solid Waste and Emergency Response: Iowa Department of Natural Resources: State and Tribal Response Program | 66.817 | 12-7540-18 | \$ 4,370 |
| U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grant Program | | | |
| | 14.228 | 11-HSG-021 | <u>32,855</u> |
| Total indirect | | | <u>1,852,570</u> |
| | | | <u>\$ 2,084,667</u> |

Basis of Presentation -The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Grinnell and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Grinnell, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 27, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of City of Grinnell, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Grinnell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Grinnell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and
Members of the City Council

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 12-II-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grinnell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Grinnell's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grinnell and other parties to whom the City of Grinnell may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Grinnell, Ben, Kohn & Co. P.C.

Atlantic, Iowa
December 27, 2012

Gronewold, Bell, Kyhnn & Co. P.C.

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FAX (712) 243-1265
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MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect on
Each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

To the Honorable Mayor and
Members of the City Council

Compliance

We have audited the compliance of the City of Grinnell with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The City of Grinnell's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Grinnell's management. Our responsibility is to express an opinion on the City of Grinnell's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grinnell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Grinnell's compliance with those requirements.

In our opinion, the City of Grinnell complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

To the Honorable Mayor and
Members of the City Council

Internal Control Over Compliance

The management of the City of Grinnell is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Grinnell's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 12-III-A. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Grinnell's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grinnell and other parties to whom the City of Grinnell may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G. Mewald, Ben, Kyhn & W.P.C.

Atlantic, Iowa
December 27, 2012

CITY OF GRINNELL, IOWA
Schedule Of Findings And Questioned Costs
Year ended June 30, 2012

PART I: Summary of the Independent Auditor's Results

Financial Statements

- (a) Type of auditor's report issued:
- Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Internal control over financial reporting:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (c) Noncompliance material to financial statements noted? yes X no

Federal Awards

- (d) Internal control over major program:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (e) Type of auditor's report issued on compliance for major program:
- Unqualified.
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133? X yes no
- (g) Identification of major program:
- CFDA Number 20.205 - Highway Planning and Construction
- ARRA Highway Planning and Construction
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (i) Auditor qualify as low-risk auditee? yes X no

CITY OF GRINNELL, IOWA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

PART II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

- 12-II-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: We will continue work in this area to increase segregation of duties.

Conclusion: Response accepted.

- 12-II-B Holding Checks: We noted during the audit that the City had prepared, but did not issue four checks at the end of the year. Two of the checks were subsequently issued. The other two checks were voided and not issued. Preparing and holding checks shows a weakness in internal controls.

Recommendation: We recommend that the City only prepare checks when goods or services have been received and are ready to be issued. Checks should not be prepared and held.

Response: We will not prepare and hold checks in the future.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF GRINNELL, IOWA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

PART III: Findings and Questioned Costs For Federal Awards

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction; ARRA Highway Planning and Construction

Pass-through Agency Numbers: EDP-3127(616)-7Y-79; STP-E-3127(620)-8V-79; STP-U-3127(619)-70-79; ESL-3127(622)-7S-79

Federal Award Years: 2008; 2009

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

- 12-III-A Segregation of Duties over Federal Programs: The City did not properly segregate all accounting and financial reporting duties, including those related to federal programs. See item 12-II-A.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART IV: Other Findings Related to Statutory Reporting

- 12-IV-A Certified Budget: Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the debt service function. This was primarily due to the advance refunding of the Series 2007 Urban Renewal Bonds, which had not been included in the budget. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

- 12-IV-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- 12-IV-C Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

- 12-IV-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

CITY OF GRINNELL, IOWA

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

PART IV: Other Findings Related to Statutory Reporting - Continued

12-IV-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

12-IV-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

12-IV-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.

12-IV-H Revenue Bonds: No instances of non-compliance with the revenue bond resolutions were noted.

12-IV-I Financial Condition: The following funds had deficit balances at June 30, 2012:

| | |
|-------------------------------------|--------|
| Capital projects: | |
| Eighth Avenue Street Construction | \$ 90 |
| Enterprise: | |
| Water plant operations | 3,154 |
| Solid waste operations, composting | 27,836 |
| Solid waste operations, residential | 4,477 |

Recommendation: The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response: The deficit fund balances will be eliminated during fiscal year 2013.

Conclusion: Response accepted.

* * *